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DEPT FOR H (JOHN REDDY)
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SUBJECT: CONGRESSMAN SMITH VISITS PERU TO DISCUSS FREE
TRADE AGREEMENT

REF: STATE 161385

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1. (SBU) SUMMARY: Congressman Adam Smith, Democrat from Washington, spent four days in Lima, Peru (Oct 1-5) talking with government and private sector representatives about the potential impact of the Peru Trade Promotion Agreement (PTPA) on both countries' economies, and the state of current Peruvian labor laws, a bone of U.S. Congressional contention. Upon departing, he said he had not decided how he would vote, but he would try to make the case with his fellow Democrats. He said his overall impression was quite positive, and that he was impressed with the commitment by both the GOP and Peruvian civil society to ensure that the country's economic growth translated into a reduction of poverty. END SUMMARY.

PRO-GROWTH DEMOCRAT MEETS MINISTERS, BUSINESS

2. (U) Describing himself as "pro-growth Democrat" who also supports strong labor rights, five-term Rep. Adam Smith (D, WA) spent four full days (October 1-5) in Lima, Peru, talking with Peruvian government officials, legislators, labor unions, large and small business groups, farmers, and NGOs about the Peru Trade Promotion Agreement (PTPA). He told his interlocutors that his principal concerns were the economic impact on the U.S. and Peruvian economies, as well as whether the PTPA would help reduce poverty and redistribute some of the wealth generated by trade. Rep. Smith urged GOP officials and business groups to contact Congressional Democrats, including House Ways and Means Ranking Minority Member Charles Rangel.

3. (SBU) Upon departing, Rep. Smith, who is also a member of the House International Affairs Committee (HIRC), said his overall impression was positive. He noted that Peru was making progress on labor rights and said he believed there was a broad commitment on the part of the GOP and civil society to making progress. While telling his interlocutors he had not made up his mind on the vote, he indicated that he viewed the PTPA in a favorable light and that he would work to persuade fellow Democrats to support the agreement.

Fortuitously, Peru is undergoing a complete review of its labor law, and Rep. Smith urged key GOP officials, including the Foreign Minister, the Trade Minister, the Labor Minister and the Agriculture Minister to highlight and promote this fact before next month when he expected the White House to send the PTPA implementation bill to the Congress.

FOCUS ON POVERTY REDUCTION

¶4. (SBU) Virtually all of Rep. Smith's interlocutors in Peru focused their comments on efforts to improve the fate of Peru's workforce and poor. The theme of poverty reduction was perhaps the essential topic of both the 2006 Peruvian presidential election, and of President Alan Garcia's proposed government program. Rep. Smith noted pointedly that he had not seen this commitment among the CAFTA countries. Rep. Smith told his interlocutors that, unlike Rep. Sandy Levin (D, MI), who visited Peru in January 2006, he was impressed by Peru's efforts on labor rights during the Toledo years and the early months of the Garcia Administration.

PTPA WILL STRENGTHEN THE FORMAL SECTOR

¶5. (U) Rep. Smith's business interlocutors pointed proudly to the high quality of protections afforded most workers in the formal sector, i.e. 30 days of annual vacation, three months of paid maternity leave, 14 monthly salaries a year, etc. Political analysts and consultants agreed that these demanding labor laws often drove companies into the less onerous informal sector. Smith said he remained concerned about the precariousness of many of those informal workers,

most of whom are self-employed, as well as the rural poor. Rep. Smith's interlocutors confirmed that increased export-led activities would move more workers into the formal sector of the economy. The bulk of exporting sector textile workers are in the formal sector, as are the bulk of workers in farm export companies.

PTPA IS GOOD ON BALANCE FOR AGRICULTURE

¶6. (U) Rep. Smith agreed with analysts that small, inefficient agricultural producers might well be losers when highly subsidized U.S. products such as cotton, rice or corn entered the small Peruvian market duty-free. However, Agriculture Minister Salazar, himself a farmer, told Rep. Smith he thought the PTPA was very good "on balance" for Peruvian agriculture. He said Peru boasted a highly profitable agricultural export sector in non-traditional products (asparagus, bell peppers, artichokes, avocados, table grapes, etc.), and the GOP has planned temporary support payments to farmers in the weaker sectors to help soften the blow. He also described GOP programs to encourage farmers to grow more profitable crops. Rep. Smith visited two textile factories and a grape and avocado farm outside Lima.

¶7. (SBU) Rep. Smith told his interlocutors, including opponents of the agreement, that he believed increased trade and economic growth would help Peru increase its GDP and help lift its people out of poverty - but that it needed to be supplemented by strong workers' rights and capacity building to enable more Peruvians to take advantage of trade opportunities. He seemed satisfied with the Garcia Administration's announced commitment to reducing poverty. He also cautioned critics of the PTPA about arbitrarily raising the bar on labor practices, a practice which could cast a negative light on practices in many countries, including in the developed world.

DEFEAT WOULD BE A BLOW TO POLICY IN THE REGION

¶8. (SBU) Rep. Smith agreed with analysts and representatives of the business community that defeat of the PTPA in the U.S.

Congress would be a significant blow to the confidence of the Peruvian economy. He also pointed to the need to support our friends and allies in Latin America against the influence of leaders like Hugo Chavez. He told the press he believed America needed friends like Peru in the region.

COMMENT: HIGH SUPPORT AND HIGH EXPECTATIONS

19. (SBU) Following the Peruvian Congress's ratification in July of the PTPA by a vote of 76 to 14, polls here show even greater support for the agreement than before. Even critics seem to admit that on balance, the PTPA will "lock in" key economic and social reforms and provide stability for a country that is still threatened by narcotics trafficking, the informal economy and persistent poverty. But the high approval ratings are also accompanied by high expectations. Many Peruvians, especially in the business sector, are looking to the U.S. Congress to ratify this agreement as early as the end of the year, and more broadly, to confirm the U.S. Government's commitment to a deeper and mutually supportive economic and political relationship.

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